

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 EB-08 COME-00 TRSE-00 AGRE-00  
SIL-01 LAB-04 OMB-01 CIAE-00 DODE-00 PM-05 H-01  
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ICA-11 /093 W  
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R 281220Z JUN 78  
FM AMEMBASSY BUDAPEST  
TO SECSTATE WASHDC 1817  
INFO AMEMBASSY BELGRADE  
AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST  
AMEMBASSY MOSCOW  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
AMEMBASSY WARSAW  
USMISSION USNATO  
USMISSION GENEVA  
AMCONSUL MUNICH

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E.O.11652: N/A  
TAGS: HU, ECON, EEWT  
SUBJECT: CSIKOS-NAGY EXPLAINS NEED FOR PRICE REFORM

REF: A) BUDAPEST 1758, B) BUDAPEST A-38, C) BUDAPEST 2451 (NOTAL)

1. SUMMARY: BELA CSIKOS-NAGY, DIRECTOR OF THE NATIONAL  
MATERIAL AND PRICE CONTROL OFFICE, EXPLAINS THE NEED TO REFORM  
THE HUNGARIAN PRICE SYSTEM TO CREATE "VALUE-RELATED PRICES"  
IN JUNE 20 EDITION OF NEPSZABADSAG. END SUMMARY.

2. ARTICLE, WHICH WAS SUMMARIZED IN JUNE 21 MTI BULLETIN,  
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BEGINS BY REVIEWING RECENT HSWP CENTRAL COMMITTEE SESSIONS  
DEVOTED TO ECONOMIC ISSUES, LEADING UP TO APRIL MEETING  
WHICH SINGLED OUT THE NECESSITY OF IMPROVING THE PRIIF SYSTEM  
AS A MAJOR ECONOMIC TASK. CSIKOS-NAGY EXPLAINS THAT HUNGARY  
HAS A PLANNED SOCIALIST ECONOMY, BUT THE PRICE SYSTEM IS A  
FUNDAMENTAL TOOL FOR REALISTIC PLANNING: "WHEN WE STRIVE FOR  
REALIZING ECONOMIC EFFICIENCY THE PRICE CATEGORY CANNOT BE EVADED."

IT WAS DECIDED DURING THE DEBATES PRECEDING THE 1968 ECONOMIC REFORMS THAT PRICES SHOULD BE VALUE-RELATED, SO THAT "EVERYBODY SHOULD PAY FOR PRODUCTS WHAT THEY REALLY COST." REFORM OF CONSUMER PRICES WAS NOT INSTITUTED IN 1968, HOWEVER; SWITCH TO VALUE-RELATED PRICES WAS ESTIMATED TO BE TASK REQUIRING 10-15 YEARS. CSIKOS-NAGY PRESENTS A TABLE SHOWING HOW CONSUMER PRICES DIFFER SIGNIFICANTLY FROM PRODUCER PRICES, WITH HIGH SUBSIDIES FOR FOOD AND OTHER BASICS AND HIGH SALES TAXES ON LUXURIES.

3. ARTICLE EXPLAINS THAT VALUE-RELATED PRICES CAN ONLY BE INTRODUCED STEP-BY-STEP. NO TIME-TABLE IS GIVEN. THERE WILL BE EXCEPTIONS TO POLICY: PRICES OF "BASIC PRODUCTS AND SERVICES USED FOR CULTURAL, HEALTH, AND WELFARE PURPOSES" WILL REMAIN LOW, WHILE FOR CERTAIN GOODS (ONLY ALCOHOLIC BEVERAGES AND TOBACCO ARE SPECIFICALLY MENTIONED) HIGH PRICES ARE JUSTIFIED.

4. NEXT CSIKOS-NAGY TURNS TO FOREIGN TRADE, SAYING THAT IN A COUNTRY HIGHLY DEPENDENT ON TRADE THE VALUE OF GOODS IS CLOSELY LINKED TO INTERNATIONAL VALUE RELATIONS. "THEREFORE WE SEEK TO STRENGTHEN THE REGULATING ROLE OF THE RATE OF EXCHANGE." FURTHER, LIKE OTHER COUNTRIES HUNGARY USES TARIFFS TO PROTECT DOMESTIC CONSUMPTION, AND TAX REBATES TO MAKE EXPORTS COMPETITIVE; TO AVOID DISTORTIONS, BOTH OF THESE POLICIES MUST BE CAREFULLY LIMITED. HUNGARY WISHES TO DAMPEN THE HARMFUL EFFECTS OF INTERNATIONAL PRICE INSTABILITY, BUT THIS HAS BEEN ADEQUATELY ACHIEVED IN THE PAST THROUGH USE OF SUCH TOOLS AS THE SYSTEM OF LIMITED OFFICIAL USE

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MIXED FIXED AND FREE PRICES, AND VARIOUS RESTRICTIONS ON PRICE CHANGES.

5. FINALLY, BECAUSE ACCURATE MEASUREMENT OF PROFITABILITY IS SO IMPORTANT TO HUNGARY'S TRADE-DEPENDENT ECONOMY, IT IS PROPOSED THAT THE STATE SHOULD IMPOSE TAXES MAINLY IN THE "FINAL STAGE OF THE REALIZATION OF GOODS. THEREFORE WE ARE PONDERING THE IMPLEMENTATION OF A REFORM REDUCING SIGNIFICANTLY THE TAXES LEVIED ON PRODUCTION COSTS."

6. COMMENT: THE GOH HAS CLEARLY BEGUN TO PREPARE THE HUNGARIAN PUBLIC FOR ECONOMIC REFORMS WHICH WILL INCLUDE SOME HIGHLY VISIBLE AND PROBABLY PAINFUL CHANGES IN CONSUMER PRICES. THE COMMUNIQUE OF THE APRIL HSWP CENTRAL COMMITTEE SESSION AND JANOS KADAR'S JUNE SPEECH IN DEBRECEN (REFTEL C) BOTH ENDORSED PRICE REFORM; THIS ARTICLE IS THE MOST DETAILED PUBLIC EXPOSITION OF THE COMING CHANGES WHICH HAS YET APPEARED (ANOTHER ARTICLE ON PRICE REFORM APPEARED IN MAGYAR HIRLAP THE SAME DAY).

7. CKIKOS-NAGY BASICALLY CONFIRMED ELEMENTS OF THE PROPOSED REFORM WHICH THE EMBASSY HAS PREVIOUSLY REPORTED (REFS A AND B), WITHOUT ADDING SIGNIFICANTLY TO OUR KNOWLEDGE. PLANNING IS

PRESUMABLY QUITE FAR ADVANCED, HOWEVER, FOR THE GOH TO BE BEGINNING PUBLIC EXPLANATIONS OF A POLITICALLY DELICATE SUBJECT. WHILE IT IS CLEAR THAT SUBSIDIES, BOTH TO PRODUCING ENTERPRISES AND IN THE DISTRIBUTION SYSTEM, WILL BE GREATLY REDUCED, AND THE TAX BURDEN LARGELY SHIFTED FROM TAXES ON PRODUCERS TO A TURN-OVER TAX, CSIKOS-NAGY GAVE NO INDICATION THAT THE PRICE SYSTEM WOULD BE CHANGED TO ALLOW FREER PRICE FORMATION. ON THE CONTRARY, HE APPEARED TO BE CALLING FOR A CONTINUED STRONG GOVERNMENT ROLE IN SETTING PRICES, OR AT LEAST IN APPROVING SIGNIFICANT PRICE CHANGES. IN THIS REGARD IT APPEARS THAT THE GOVERNMENT IS ABANDONING, AT LEAST FOR THE PRESENT, THE 1968 INTENTION OF MOVING STEADILY TOWARD A SYSTEM IN WHICH PRICES WERE INCREASINGLY SET BY THE /SOCIALIST MARKET." END COMMENT.

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## Message Attributes

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